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Message Text

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ACTION TRSE-00

INFO OCT-01 NEA-10 ISO-00 ABF-01 FS-01 /013 W
----------060897 130004Z /12
R 111759Z AUG 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 2521

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E.O. 11652: N/A
TAGS: EFIN, EG
SUBJ: DEPOSITS OF USG-OWNED FOREIGN CURRENCIES

REF: (A) STATE 195113, (B) 77 CAIRO 17536,
- (C) 77 CAIRO 6856

1. EMBASSY INVITES DEPARTMENTS ATTENTION TO DETAILED SUMMARY OUTLINED IN REF C OF ACTIONS TAKEN AS OF APRIL 1977 ON THIS LONG-STANDING SITUATION. PRESENT CONDITIONS REGARDING USG-OWNED EGYPTIAN POUNDS DEPOSITS REMAIN ESSENTIALLY SAME. FOLLOWING POINTS NEVERTHELESS ARE SUBMITTED IN RESPONSE TO QUESTIONS POSED PARA 1 REF A:

-- A. CURRENT COMMERCIAL RATES ON L.E. DEPOSITS OF ONE
-- YEAR OR MORE ARE SIX PER CENT. THIS IS SLATED TO
-- RISE TO SEVEN PER CENT PRIOR JANUARY 79. INTEREST
-- ON DEPOSITS OF LESS THAN ONE YEAR ARE VARIOUSLY FIVE
-- TO FIVE AND ONE-HALF PER CENT.

-- B. NO WRITTEN GOE REGULATIONS SPECIFICALLY LIMIT PLACE-
-- MENT OF USG DEPOSITS AT PREVAILING INTEREST RATES.

-- C. USG DEPOSITS ARE PRESENTLY RESTRICTED FROM EARNING
-- COMMERCIAL INTEREST RATE BY UNDOCUMENTED (AS FAR AS
-- WE ARE AWARE) AGREEMENT APPARENTLY IN EFFECT SINCE
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-- EARLY 1960'S THAT LIMITS INTEREST ON USG L.E.
-- DEPOSITS TO THREE-FOURTHS OF ONE PER CENT. THIS
-- RESTRICTION HAS BEEN APPLIED TO USG ACCOUNTS AT
-- PRIVATE JOINT VENTURE BANKS, AS WELL AS MAJOR
-- NATIONALIZED BANKS. (ONLY THESE BANKS CAN ACCEPT
-- L.E. DEPOSITS.)

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-- D. SUBJECT WAS MOST RECENTLY RAISED WITH GOE IN OCTOBER
-- 1977 BY TREASURY SECRETARY BLUMENTHAL DURING HIS
-- VISIT TO CAIRO (SEE PARA 7 REF B). PREVIOUS EMBASSY
-- ACTION ON ISSUE IS DETAILED REF C.
-- E. GOE HAS INDICATED ON MORE THAN ONE OCCASION, INCLUD-
-- ING DURING SECRETARY BLUMENTHAL'S VISIT, IT WOULD
-- REVIEW ISSUE, BUT NO FURTHER DECISION HAS YET
-- BEEN FORTHCOMING.

-- F. GIVEN EXTREMELY LOW INTEREST RATE PREVAILING ON
-- SUBSTANTIAL USG L.E. DEPOSITS, IMPROVEMENT IN
-- POTENTIAL RETURN ON THESE AMOUNTS WEIGHS HEAVILY
-- IN FAVOR OF ARGUMENT TO NEGOTIATE CHANGE. FACT
-- CITED BY GOE, HOWEVER, THAT THIS COULD FUEL FURTHER
-- MONETARY EXPANSION AND INFLATION MUST ALSO BE CON-
-- SIDERED, PARTICULARLY GIVEN PRESENT SIZE OF USG
-- L.E. HOLDINGS. ADDITIONALLY, INTEREST RATE INCREASE
-- COULD LEAD INDIRECTLY TO CONTRAVENTION OF IMF EX-
-- TENDED FUND FACILITY DOMESTIC CREDIT CEILINGS
-- RECENTLY NEGOTIATED.

-- G. FOLLOWING JOINT VENTURE U.S.-PARTICIPATION BANKS,
-- ALL WITH MINORITY HOLDINGS AS REQUIRED UNDER LAW,
-- ARE IN OPERATION IN EGYPT: CHASE NATIONAL (CHASE
-- MANHATTAN), EGYPTIAN AMERICAN (AMERICAN EXPRESS,
-- MISR AMERICA (BANK OF AMERICA AND MISR INTERNATION-
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-- AL (FIRST NATIONAL CHICAGO). ALL BUT BANK OF
-- AMERICA JOINT-VENTURE HOLD L.E. 10 MILLION USG
-- DEPOSITS; THAT OFFICE IS RELATIVELY RECENTLY OPENED
-- (NOVEMBER 1977)AND HAS NOT THUS FAR REQUESTED
-- SUCH DEPOSIT. ALL BANKS PAY TO USG ONLY THREE-
-- FOURTHS PER CENT, AT GOE DIRECTION.

2. FYI: WE NOTE FOR RECORD EMBASSY HAS RECENTLY BEEN OFFERED THREE PER CENT ON DEPOSITS BY SUEZ CANAL BANK, EGYPTIAN JOINT VENTURE WITH NO U.S. PARTICIPATION. DEPARTMENT WILL RECALL CHASE NATIONAL EARLIER BELIEVED IT POSSIBLE TO OFFER USG COMMERCIAL TERMS ON TIME DEPOSITS OF PL-480-GENERATED FUNDS, BUT THIS EVENTUALLY WAS NOT ALLOWED BY GOE. END FYI.

3. WHILE EMBASSY APPRECIATES ECONOMIC RATIONALE FOR YET ANOTHER DEMARCHE ON SUBJECT, DESPITE CONCERNS OVER POSSIBLE MONETARY/FISCAL PROBLEMS, APPROPRIATE TIMING WOULD BE CRITICAL TO SUCCESS. MOREOVER, RESOLUTION OF INTEREST RATE ISSUE LIKELY WOULD REQUIRE HIGH-LEVEL GOE DECISION AFTER CONSIDERABLE AMOUNT OF PERSUASION BY USG. CLEARLY OUR CURRENT POLITICAL INTERESTS IN EGYPT TAKE

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PRECEDENCE OVER QUESTION OF EARNINGS ON USG-OWNED POUNDS.
WE REPEAT AT THIS TIME, THEREFORE, OUR RECOMMENDATION
PARA 10 REF C THAT SUCH MATTERS AND RELATED ISSUES BE
HELD IN ABEYANCE FOR FUTURE RESOLUTION. EILTS

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